



SACHI A. HAMAI
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

May 11, 2016

To: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Sachi A. Hamai
Chief Executive Officer

Board of Supervisors
HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
Second District

SHEILA KUEHL
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

SACRAMENTO UPDATE - PURSUIT OF COUNTY POSITION ON LEGISLATION RELATED TO TRANSPORTATION FUNDING

This memorandum contains a report on the following:

- **Pursuit of County Position to Support SBx1 1 (Beall).** This measure would enact the Transportation Infrastructure and Economic Investment Act and create a \$6.5 billion funding package to address the maintenance backlog for the State's roads and transportation infrastructure. Therefore, unless otherwise directed by the Board, consistent with existing policies to support transportation funding proposals that include new fees and taxes or that identify a sufficient and permanent funding source for local street, local road, and State highways maintenance and rehabilitation to ensure the safe and efficient mobility of the traveling public and the economic vitality of California, **the Sacramento advocates will support SBx1 1.**

Pursuit of County Position on Legislation

SBx1 1 (Beall), which as amended on April 21, 2016, would create the Road Maintenance and Rehabilitation Program to address deferred maintenance on the State highway system and the local street and road system, funded from revenue generated by new and increased fees and taxes and repayment of outstanding loans made in previous years from certain transportation funds to the State General Fund.

"To Enrich Lives Through Effective And Caring Service"

***Please Conserve Paper – This Document and Copies are Two-Sided
Intra-County Correspondence Sent Electronically Only***

The bill includes \$5.5 billion in new ongoing revenue from the following sources:

Source:	Amount:
Gasoline excise tax increase - \$0.12 per gallon	\$1.7 billion
Diesel fuel excise tax increase - \$0.22 per gallon	\$600 million
Road Access Fee (new) - \$35 per vehicle per year	\$1.0 billion
Annual Vehicle Registration Fee Increase - \$35 per vehicle per year	\$1.0 billion
Zero-emission Vehicle Fee (new) - \$100 per vehicle per year	\$10 million
Diesel fuel sales tax increase - from 1.75 percent to 5.25 percent	\$300 million
Restoration of weight fees to transportation	\$500 million
Allocation of Cap and Trade revenues to transportation	\$300 million
Caltrans Reforms and Efficiencies	\$100 million

SBx1 1 also includes a one-time repayment, by June 30, 2016, of \$1.0 billion in outstanding loans made in previous years from transportation funds to the State General Fund. This measure also would eliminate the annual rate adjustment to maintain revenue neutrality for the gasoline and diesel excise tax rates, and re-impose the gasoline excise tax rate that was in effect on July 1, 2010. Beginning July 1, 2019, and every third year thereafter, the Board of Equalization (BOE) would be required to re-compute the gasoline and diesel excise tax rates based upon the percentage changes in the California Consumer Price Index and the fuel efficiency of the State motor vehicle fleet.

SBx1 1 would allocate five percent of annual revenues to counties that approve a transaction and use tax for the first time on or after July 1, 2016, with the remaining funds to be allocated as follows: 50 percent for maintenance of the State highway system or to the State Highway Operation and Protection Program; and 50 percent to cities and counties.

SBx1 1 would restore existing weight fees, currently being used to pay down transportation debt services, back to use for transportation purposes. Specifically, the bill would: 1) limit the amount of vehicle weight fee revenues that may be transferred each year to the Transportation Debt Service Fund or the Transportation

Bond Direct Payment Account to the amount of revenues necessary to pay current year debt service only on specified bond measures and specifically exclude debt service for Proposition 1A (2008) bonds issued for high-speed rail and associated purposes; and 2) prohibit loans of vehicle weight fee revenues to the General Fund and require the Department of Finance to develop a plan to restore 100 percent of net weight fee revenues to the State Highway Account, beginning in FY 2021-22.

In order to pay current year debt service, SBx1 1 would, beginning on July 1, 2016: 1) transfer revenues from the sales and use tax on diesel fuel for the purpose of paying current year debt service on transportation general obligation bonds (except Proposition 1A-High Speed Rail bonds) and for payment of debt service previously funded by miscellaneous revenues in the State Highway Account; and 2) transfer Greenhouse Gas Reduction Fund (cap and trade) revenues in an amount necessary to pay current year debt service for Proposition 1A-High Speed Rail bonds.

The bill also would increase revenues for transit programs and projects, beginning on July 1, 2016, by:

- 1) restricting the revenue from the additional sales and use tax rate on diesel fuel to transit capital purposes and certain transit services;
- 2) requiring a transfer of Greenhouse Gas Reduction Fund revenue to backfill the diesel fuel sales and use tax revenues transferred to the Transportation Debt Service Fund;
- 3) continuously appropriating 20 percent of annual Greenhouse Gas Reduction Fund revenues to the Transit and Intercity Rail Capital Program, and 10 percent the Low Carbon Transit Operations Program; and
- 4) requiring the High-Speed Rail Authority, commencing no earlier than FY 2016-17, to set aside \$550.0 million for capital improvements on intercity and commuter rail lines and urban rail systems that provide connectivity to the High-Speed Rail System and for other rail capital purposes, as specified.

Finally, SBx1 1 would continuously appropriate \$100.0 million annually from the Greenhouse Gas Reduction Fund to the State Highway Account for the Active Transportation Program. It also would establish the Advance Transportation Project Mitigation Program to: 1) provide effective mitigation and conservation of natural resources and natural processes on a landscape, regional, or statewide scale;

2) expedite the environmental review of planned transportation projects; and 3) facilitate the implementation of measures to mitigate the impacts of those projects by identifying and implementing mitigation measures in advance of project approval.

SBx1 1 is an urgency measure and will require a two-thirds vote of the Legislature for enactment. If signed by the Governor, this measure would take effect immediately.

Background

The Fuel Tax Swap enacted under ABx8 6 (Chapter 11, Statutes of 2010) and SB 70 (Chapter 9, Statutes of 2010), and re-enacted by AB 105 (Chapter 6, Statutes of 2011), eliminated the sales tax on gasoline and replaced it with a price-based excise tax. The State's fuel excise tax is comprised of: 1) an excise tax base amount, which has been 18 cents per gallon since 1994; and 2) a price-based excise tax, which is currently 12 cents per gallon. The BOE is required to adjust the price-based excise tax rate annually so that the total amount of tax revenue generated is equal to what would have been generated had the sales tax remained in place. Because the excise tax rates are based upon projections of prices and gallons of gas sold, current law provides for a "true-up," or reconciliation, once actual price and volume of fuel sold data becomes available for the relevant fiscal year. According to the BOE, that data is available two years later.

During the recent State budget shortfalls, the Legislature enacted a series of measures which redirected gas fees and other transportation revenues to the State General Fund. AB 105 directs truck weight fees and other transportation revenues to pay for transportation bond debt service and loans to the State General Fund, with various repayment dates. Current law also provides for the deposit of fuel excise tax revenues in the Highway Users Tax Account, and appropriates those revenues between the State Highway Account and cities and counties. SB 85 (Chapter 35, Statutes of 2013) requires certain revenues deposited in the State Highway Account to be transferred to the Transportation Debt Service Fund in the State Transportation Fund, to permanently offset some State General Fund debt-service costs with transportation funds.

County Impact

The Department of Public Works (DPW) reports that SBx1 1 would generate \$6.5 billion in FY 2016-17 and \$5.5 billion annually thereafter in new statewide transportation revenues for the following uses:

- **Road Maintenance and Rehabilitation Account** - \$5.5 billion in FY 2016-17 and \$4.5 billion annually thereafter;

- **Trade Corridor Improvement** - \$300.0 million annually for infrastructure improvements on designated trade corridors, freight networks, and other high-volume freight traffic corridors;
- **State Active Transportation Program** - \$100.0 million annually for bikeway and pedestrian infrastructure projects; and
- **Transit and Intercity Rail** - \$550.0 million annually.

The Department of Public Works indicates that, under the new Road Maintenance and Rehabilitation Account, the County would receive approximately \$293.0 million in FY 2016-17 and \$245.0 million annually thereafter for transportation system preservation, maintenance, and operation of streets and roads in the unincorporated areas. Primary eligible uses for this revenue are improvements that will reduce further deterioration of the existing road system, including pavement and bridges and necessary associated facilities such as drainage and traffic control devices; and safety projects to reduce fatalities.

The Department of Public Works also reports that SBx1 1 proposes a comprehensive solution to the transportation funding existing shortfalls and backlog statewide for the State and local jurisdictions. Due to adjustment of gasoline excise tax rates under the current system, DPW's projected revenues in FY 2016-17 for maintenance of transportation infrastructure have decreased by \$46.0 million, or 25 percent, in comparison to revenues received in FY 2014-15. DPW indicates that these reductions hamper the Department's ability to deliver ongoing operation and maintenance programs critical for the safety and quality of life of communities in the County and to implement needed infrastructure repairs and improvements. As previously reported, DPW has deferred \$68.0 million in system preservation work on several county road projects as a result of decline in State gasoline excise tax revenues.

The Department of Public Works indicates that, at current service levels, ongoing County street and road operation, maintenance, and safety programs cost in excess of \$180.0 million annually while gasoline taxes and operating revenue generate only \$163.0 million. As a result, the County's pavement programs have been reduced only to those that can be funded with available Federal, State Proposition C, and local Measure R funds.

This office and the Department of Public Works support SBx1 1 because the amount of additional funding available from the proposed Road Maintenance and Rehabilitation Account would: 1) more than offset the recent gasoline tax revenue reductions; 2) provide the County with the ability to continue the optimum levels of operation and

Each Supervisor
May 11, 2016
Page 6

maintenance; and 3) provide funding to implement a robust pavement preservation and rehabilitation program while stabilizing the road fund financials. Therefore, unless otherwise directed by the Board, consistent with existing policies to support transportation funding proposals that include new fees and taxes or that identify a sufficient and permanent funding source for local street, local road, and State highways maintenance and rehabilitation to ensure the safe and efficient mobility of the traveling public and the economic vitality of California, **the Sacramento advocates will support SBx1 1.**

SBx1 1 is pending in the Senate Appropriations Committee.

We will continue to keep you advised.

SAH:JJ:MR
VE:AO:ma

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants